BUSINESS CONDITIONS

FEDERAL RESERVE BANK OF CHICAGO 7-G

SEVENTH FEDERAL RESERVE DISTRICT

CHICAGO, APRIL 25, 1920

THERE HAS BEEN A GRADUAL TIGHTENING OF THE MONEY MARKET; rates are firming up and the banks throughout the Seventh Federal Reserve District are borrowing freely at the Federal Reserve Bank, reflecting the abnormal demand for credit in all lines of business.

The traffic situation is seriously affecting business. While the car shortage has prevented a free movement of finished goods and has also embarrassed manufacturing facilities by non-receipt of materials, fuel and supplies, the interruption of transportation by strikes has brought about a more acute condition. Collections have slowed down during the last sixty days, but this is explained to some extent by the inability to deliver goods after they have been sold and by the condition of roads in the country districts. With more settled weather conditions in the country districts some improvement may be expected.

AGRICULTURAL BORROWINGS CONTINUE PERSISTENT

Nearly two months have elapsed since the great demand in connection with farm land transfers became apparent. The liquidation which usually follows such activity has not taken place to the extent expected. There is no question that the lack of transportation facilities has had much to do with this but it is quite possible that this one feature may be unduly emphasized.

Government reports do not indicate much more than a normal percentage of grain in the hands of the farmers, while their obligations to their banks are much larger than a year ago. Advices in answer to special inquiries directed to banks in all sections of the corn belt support the Government estimate and fail to indicate that the supplies of grain and livestock on the farms ready for market are abnormally large compared with other years; hence the perplexing feature of the insistent borrowings at the country banks and the demand upon the Reserve banks in consequence. It is difficult, therefore, to escape the conclusion that many banks in this territory are carrying a larger amount than usual of real estate loans based on farm lands at high values, or of unsecured paper given in connection with such transactions, which, however good in itself, can be liquidated only out of the proceeds of crops which are not yet in the ground.

WHERE GRAIN CONGESTION FREEZES CREDITS

Practically every bank replying to a general inquiry, reports that there has been a greatly increased use of credit by farmers as well as manufacturers. This situation is particularly aggravated in some of the agricultural districts, where farmers have not been able to market their grain because of bad roads and inadequate cars and where elevators are filled to capacity.

One banker in a town in the Seventh Federal Reserve District, which is not centered in an agricultural district but which is a prominent grain shipping point, estimates that credit to the extent of approximately $5,000,000 has been granted to carry grain above normal times. Embargoes and costly delays in shipments have prevented some agricultural sections from shipping their grain or livestock. These factors have

COMPILED APRIL 23, 1920

had the effect of freezing credits to the amount of value of the commodity involved. If these credits could have been released promptly they could have been used to finance other transactions, but being tied up, further credit expansion to handle other transactions became imperative.

BANKERS DISCRIMINATING IN EXTENDING CREDIT

One of the encouraging developments in connection with the loan situation is the increasing disposition on the part of leading bankers of the district to carefully sift loan applications. Customers are being asked to explain specifically for what purpose they are seeking credit extensions, with a view of determining whether the amounts can be pared down. This discrimination, if followed throughout the Middle West, should result in a considerable contraction in the volume of credit without injuring those engaged in legitimate business or impairing the ability to obtain credit where it is essential.

Under existing conditions, strong old established concerns who are seasonal borrowers, if at all, and who have large balances in the bank, have the advantage. On the contrary, persistent borrowers are seriously handicapped, because the inability to get sufficient raw material leaves them with their products incomplete. One manufacturing concern estimates that the railroad situation, combined with the shortage of labor and raw material, has increased his use of credit 20 per cent over and above the additional amount required because of the higher wages and increased costs of material.

BUSINESS FRETTING BUT DETERMINED TO GO AHEAD

There is an almost insatiable demand for everything produced, and even the abnormally high production costs seem to be lost sight of in an effort to go ahead and supply the requirements.

With this volume of business causing a strain upon the resources of the nation, necessarily failure on the part of any factor in the situation to properly function increases the demand for credit and adds to the financial burden resting upon the banking system, hence the feeling of apprehension in industrial centers when there loomed before the business community a menacing railroad strike, which if extended, threatened to paralyze industrial activity, and to produce a shortage of both food and fuel. The practical shutting down of the Stock Yards at Chicago, throwing out of work 44,000 employees, and the closing down of 80 per cent of Detroit industries dependent upon central station for power, together with the cessation of operations by numerous other mid-west plants, afford specific illustrations of what actually did occur.

EXTENT OF BREAKDOWN IN TRANSPORTATION FACILITIES

Manufacturers for some months have been experiencing a serious interference through transportation irregularities, and a shortage of labor and raw material. Whether this transportation inadequacy is due to the poor physical condition of the railroads or a record-breaking tonnage, or both, does not alter the fact that business, already handicapped by inefficiency of labor and other factors, is compelled to realize on the products of its industry or borrow more liberally at the banks.

Motor trucks have been pressed into use wherever possible, and yet the transportation facilities of the country are proving inadequate. The automobile industry is compelled to drive 20 to 50 per cent of its output to sales agents. While railroad officials estimate the actual shortage in freight cars at 100,000 and in locomotives at 2,000, others estimate that under existing conditions at least 700,000 cars and 20,000 locomotives would be required in addition to present equipment to move the freight offered. There is particularly a shortage of flat cars, while manufacturers of agricultural machinery state that they are forced to ship in gondola and cattle cars, neither of which are adapted for this puprose but both of which are being used as makeshifts.

Another interference with the conduct of business is the expressmen's strike, which has shifted a tremendous burden to the parcel post system, thus glutting the postal facilities and seriously retarding the delivery of the mails.

Some relief to the traffic congestion will be afforded by the opening of water transportation and by the seasonal betterment in railroad shipping, providing strikes do not paralyze rail operation.

RAW MATERIAL REQUIREMENTS ABSORBING CREDIT

Obviously the high level of prices and the shortage of available raw materials necessitate, it is estimated, double the amount of capital or credit for a given volume of trade. This is a big factor in the loan item not only in the country districts but in the manufacturing centers scattered all through the Middle West.

Illustrating this is the instance of a large pig iron user who applied for a line of credit far in excess of normal borrowings at this time of the year. The disposition to reject the application on the ground that the loan partook of a speculative operation in pig iron brought a protest from the applicant, who stated that it was imperative that he carry eight months' supply of melting iron to safeguard plant assets and to protect contract liabilities requiring such an amount of pig iron. Another instance was a manufacturer who was advised by his bank to sell some of the excessive material in his inventory. Such

sale at the existing prices would mean a clear profit double his ordinary individual manufacturing profit. The manufacturer pointed out that it would be impossible for him to replace the material excepting at an advance and that the lack of material would mean the surrender of goodwill and the position of the concern, thus destroying the value of the plant as a going business.

SHORTAGE OF LABOR CONTINUES TO BE FELT KEENLY

Shortage of labor and raw materials, vital factors in the industrial situation, show no signs of an early improvement. Estimates of the shortage of labor run from about 10 to 25 per cent—no lines being exempt. Particularly is there a shortage of common labor, although of course in some lines there is a shortage of skilled labor also.

Another important consideration in the situation is the abnormal shifting of labor. One concern has this to say: "The number of accessions and separations in our factory labor is more than we have ever known in our history. This is a constant source of expense because of the necessity of training and retraining workers. It is quite evident that we lose a substantial amount of money in this operation. This condition can be remedied only when the time arrives that our workers are as permanently attached to us as they were formerly."

The Labor Questionnaire covering March, including representative industries throughout the Seventh Federal Reserve District shows an average decrease of 4.5 per cent from February in number actually employed on the last full day of the month, and a decrease of 9.8 per cent compared with March last year. The average percentage of full capacity employed in March was 75.1 against 77.0 in February, 1920, and 78.3 in March a year ago. The average payroll disbursements in March showed an increase of 5.1 per cent over February and an increase of 12.9 per cent over March, 1919. There is a shortage of labor now against a surplus a year ago.

SOME TENDENCY TOWARD CONSERVATIVE BUYING IN CITIES

While a special investigation of retail trade in various lines develops the fact that the public, more particularly the wage earning or laboring class, is still spending freely, a few points principally the larger cities in the Middle West, report indications of a halt or a show of conservatism. Grocery, dry goods, jewelry and furniture concerns report a tendency to buy the highest priced goods. There is, of course, some saving.

On the whole the country districts continue to report the liberal purchase of articles in the luxury or semi-luxury classes. Several grocery houses report that a number of their staple items—for instance navy beans—which usually have found a ready market, particularly among the working classes, this year are finding a very limited demand, whereas the higher priced articles and what is termed "fancy" groceries are in heavy demand.

There is a distinct lessening in the buying of jewelry in the cities by the working classes, compared with a month ago. Watch repairs are more promptly made now than earlier in the year

The condition of retail trade throughout the district, gauged by our February Questionnaire, answered by representative mercantile concerns and reduced to accurately "weighted" averages, is as follows: Net sales showed an average increase of 51.68 per cent over the corresponding month last year. The first two months of this year show 50.70 per cent increase in net sales compared with the same period of 1919.

Stock inventories stood 51.80 per cent higher at the end of February than at the same date a year ago. Compared with January, 1920, February stocks showed an increase of 55.68 per cent. The ratio of average stocks to average monthly sales stood 344.8 at the end of February against 358.3 at the end of January—indicating the familiar difficulty in obtaining merchandise from manufacturers.

Outstanding orders for retail stock merchandise showed a February ratio of 29.74 per cent to the total of purchases in 1919. At the end of January this ratio stood at 17.5 per cent—indicating confidence in the outlook and willingness to stock up as fast as deliveries can be obtained. The Questionnaire undoubtedly shows a healthy condition of retail trade.

CANNING INDUSTRY IS RECOVERING

Careful investigation among the leading canners in Illinois, Indiana, Iowa, Michigan and Wisconsin reveals considerable recovery by the canning industry, which felt seriously the competition caused by the dumping of the surplus stocks of the War Department on the market at much less than the cost of production, especially tomatoes. Not an unusually large stock is being carried over in most instances, but the present demand for spot delivery is far below the normal for this season.

The chief difficulty in this industry, as far as the future is concerned, is the decrease in acreage in all states excepting Wisconsin, and more especially in Michigan and Indiana, devoted to the production of vegetables and other products usually canned. This decrease is due to the inability of farmers to compete with the prices paid for labor by manufacturing concerns, and also to the high price obtainable for field corn and other products.

The present canners' crop indications are good, and with the Government surplus out of the way, it is estimated that the spot market will be cleaned up by the time the 1920 pack is ready for sale. There is a good demand for futures in all lines of high grade fancy goods, but a very small demand for standard lines and

practically none for sub-grades. The outcome of the 1920 canners pack depends largely on the attitude of the banks regarding the financing of the business through the packing season.

CROP CONDITIONS GOOD BUT LABOR SCARCITY CUTS ACREAGE

The general condition of the soil and crop prospects seem to be favorable. The season, however, has been delayed by excessive moisture. Farmers have not been able to start spring plowing, as a rule. The heavy fall of snow in April damaged some crops in certain parts of the district, but this was in no wise general. At the same time this white covering was very beneficial to the wheat in the ground.

Apparently the most disturbing factor in the crop situation is the growing scarcity of farm labor, which seems likely to develop into a very serious problem later in the year. An example of how this is working is to be found in the fact that upon one main traveled road of 8 or 9 miles over a very fine farm section of southern Michigan, more than 1,000 acres of excellent old farming land will be practically abandoned this season because the owners are simply unable to obtain the necessary labor to properly till their lands. This condition, if aggravated, will likely have an effect on crops in a broad sense, and is bound to complicate and render more serious the problems of the High Cost of Living.

One benefit of the effect of this shortage of farm labor, however, is the increased use of labor saving machinery in agricultural pursuits. Makers of this machinery report a good demand and say that its use will go a long way not only toward alleviating the labor shortage, but in intensifying production. Undoubtedly, however, acreage is below normal because of farm labor shortage.

MOVEMENT OF CREDIT LESS ACTIVE

The movement of credit reflected in the aggregate debits to individual account, indicates less activity than a month ago. The total debits as of April 14, reported by 182 banks in 22 leading clearing house centers, including Chicago, was $1,101,984,000, which was $7,751,000 less than the corresponding week of the previous month, although it is still $256,473,000 greater than for the second week of April a year ago.

DISCOUNT AND INTEREST RATES

The open market range of discount and interest rates prevailing in Chicago during the thirty-day period ending April 15, 1920, together with a comparison of rates during the thirty-day periods ending March 15, 1920, and April 15, 1919, follows:

	APRIL 1920			MARCH 1920			APRIL 1919		
	High	Low	Customary	High	Low	Customary	High	Low	Customary
1. Rates of discount charged by banks to customers for prime commercial paper such as is now eligible under the Federal Reserve Act:									
a. Running 30, 60 and 90 days	7	6	6½@7	7	6	6@6½	6	5¼	5½@6
b. Running 4 to 6 months	7	6	6½@7	7	6	6@6½	6	5¼	5½@6
2. Rates for prime commercial paper purchased in the open market:									
a. Running 30 to 90 days	7	6	6½@7	7	6	6@6½	5½	5¼	5¼@5½
b. Running 4 to 6 months	7	6	6½@7	7	6	6@6½	5½	5¼	5¼@5½
3. Rates charged on loans to other banks—secured by bills payable	7	6	6½@7	6½	5½	6@6½	6	5½	5½
4. Rates for bankers' acceptances of 60 to 90 days maturities:									
a. Endorsed	6	5 7/8	5 7/8@6	6 1/8	6	6@6 1/8	4 5/16	4¼	4¼@4 5/16
b. Unendorsed	6	5 7/8	5 7/8@6	6 1/8	6	6@6 1/8	4 5/16	4¼	4¼@4 5/16
5. Rates for demand paper secured by prime stock exchange collateral or other current collateral	7	6½	6½@7	7	6	6@6½	6	5½	5½@6
6. Rates for time paper secured by collateral mentioned in No. 5:									
a. Running 3 months	7	6½	6½@7	7	6	6@6½	6	5½	5½@6
b. Running 3 to 6 months	7	6½	6½@7	7	6	6@6½	6	5½	5½@6
7. Rates (when paper is current in city) for:									
a. Cattle loans	7	6½	6½@7	6½	6½	6½	6	6	6
b. Commodity paper secured by warehouse receipts, etc	7	6½	6½@7	6½	6½	6½	6	5½	6
8. Rates for ordinary commercial loans running 30, 60 and 90 days, (not including loans to enable purchase of bonds) secured by:									
a. Liberty bonds	7	6½	6½@7	6½	5½	6@6½	6	5	5½
b. Certificates of indebtedness	6	5	5½	6½	5½	6@6½	6	5	5½

SELECTED MEMBER BANK STATISTICS—SEVENTH DISTRICT

(000's omitted)

Items—	CHICAGO —50 Member Banks— April 9, 1920	March 12, 1920	April 11, 1919	DETROIT —12 Member Banks— April 9, 1920	March 12, 1920	April 11, 1919	OTHER —45 Member Banks— April 9, 1920	March 12, 1920	April 11, 1919
Total U. S. Securities	$76,833	$90,540	$175,864	$59,520	$89,763	$79,379	$55,841	$60,005	$83,979
Loans—(exclusive of rediscount)									
Secured by U. S. war obligations	70,662	....	67,605	13,036	....	11,195	16,831	....	14,272
(a) Liberty Bonds		52,601	....	....	9,813	....	....	13,999	....
(b) Victory Notes		14,585	....	....	2,389	....	....	2,690	....
(c) Certificates of indebtedness		2,931	....	....	800	....	....	765	....
Loans secured by stocks and bonds	347,566	364,838	....	61,090	60,076	....	58,996	57,147	....
All other loans and investments (exclusive of rediscounts)	869,373	929,293	849,253*	316,819	309,817	256,349*	332,750	332,322	281,276*
Reserve Balance with Federal Reserve Banks	130,902	139,671	104,811	30,701	32,010	23,442	30,939	34,238	26,034
Cash in vault	38,629	36,688	37,455	13,445	13,782	12,540	15,567	15,058	14,251
Deposits—									
Net Demand	970,485	1,023,898	794,988	211,639	229,489	167,508	261,818	270,801	229,291
Time	272,623	269,882	163,057	221,834	220,538	166,677	115,296	112,784	95,706
Government	4,111	2,548	36,445	1,100	1,526	13,746	2,333	1,072	13,497

*Includes loans secured by stocks and bonds except U. S. Securities.

†Figures for April 11, 1919, were from 44 Chicago Banks.

BUILDING PERMITS OF SEVENTH FEDERAL RESERVE DISTRICT CITIES

Location	MARCH 1920 No. of Permits	MARCH 1920 Estimated Cost	MARCH 1919 No. of Permits	MARCH 1919 Estimated Cost	Per Cent Gain	Per Cent Loss
Illinois						
Aurora	30	$ 79,870	13	$ 23,950	234	..
Chicago	480	10,600,100	497	5,098,250	107	...
Decatur	96	646,850	53	123,125	425	...
East St. Louis	75	272,261	42	344,070	...	20
Evanston	46	295,993	...	39,455	650	...
Peoria	72	280,880	43	110,010	155	...
Quincy	1	3,000	8	25,000	...	90
Rockford	138	447,550	...	....	...	...
Springfield	100	252,340	60	60,480	317	...
Indiana						
Elkhart	5	9,250	4	6,500	42	...
Evansville	85	69,635	97	54,325	28	...
Fort Wayne	90	323,746	52	151,127	115	...
Hammond	26	99,050	55	78,675	25	...
Indianapolis	714	831,454	606	529,314	57	...
Richmond	15	20,466	28	12,085	69	...
South Bend	181	509,191	94	97,140	424	...
Terre Haute	100	113,936	98	53,187	114	...
Iowa						
Cedar Rapids	75	240,000	...	84,000	185	...
Davenport	140	311,500	125	101,000	208	...
Des Moines	110	424,950	104	301,950	40	...
Dubuque	28	116,460	24	126,359	...	7
Mason City	91	38,126	26	26,320	46	...
Sioux City	125	298,910	62	225,900	32	...
Michigan						
Bay City	63	94,900	...	....	...	...
Detroit	1,986	8,762,410	1,052	3,238,440	170	...
Flint	516	1,165,941	220	327,800	255	...
Grand Rapids	180	600,890	130	164,343	266	...
Jackson	100	198,773	82	64,393	211	...
Kalamazoo	34	67,692	16	28,760	134	...
Lansing	119	121,615	61	116,490	4	...
Saginaw	184	150,920	64	50,680	196	...
Wisconsin						
Kenosha	123	158,887	92	370,180	...	57
Madison	41	271,430	20	77,740	247	...
Milwaukee	368	1,663,408	362	1,265,440	31	...
Oshkosh	26	42,525	...	....	...	...
Sheboygan	58	21,996	44	14,570	50	...
Superior	49	34,120	74	100,799	...	66

BUILDING STATISTICS FOR THE MONTH OF MARCH, 1920

SEVENTH FEDERAL RESERVE DISTRICT

(Covering Illinois, Indiana, Iowa, Michigan, Wisconsin and portions of Missouri and Eastern Kansas.)

Class	Contemplated Projects: No. of Projects	Contemplated Projects: Valuation	Contracts Awarded: No. of Projects	Contracts Awarded: New Floor Space Sq. ft.	Contracts Awarded: Valuation
Business Buildings	574	$24,058,200	403	3,114,800	$14,177,100
Educational Buildings	166	11,608,000	64	907,200	5,124,600
Hospitals and Institutions	25	5,040,500	16	234,000	1,140,000
Industrial Buildings	301	36,146,500	218	7,366,300	30,891,900
Military and Naval Buildings	2	73,000	2	50,400	209,000
Public Buildings	24	784,900	10	25,500	161,900
Public Works and Public Utilities	586	48,987,500	269	....	19,235,570
Religious and Memorial Buildings	55	3,209,300	20	204,800	1,502,000
Residential Buildings	1,245	35,539,000	899	3,719,400	15,748,300
Social and Recreational Buildings	100	110,425,000	28	293,700	1,536,900
Total	3,078	$275,871,900	1,929	....	$89,727,270

CONTRACTS AWARDED

(January 1 to April 1)

1920	$229,233,000	1916	$81,380,000	1912	$22,674,000
1919	110,164,000	1915	43,834,000	1911	42,764,313
1918	63,232,000	1914	38,796,000	1910	48,707,809
1917	120,308,000	1913	34,591,000		

ALL DISTRICTS

(States north of the Ohio and east of the Missouri rivers.)

Class	Contemplated Projects: No. of Projects	Contemplated Projects: Valuation	Contracts Awarded: No. of Projects	Contracts Awarded: New Floor Space Sq. ft.	Contracts Awarded: Valuation
Business Buildings	1,797	$81,625,200	1,190	10,553,000	$52,446,700
Educational Buildings	453	43,960,400	176	3,520,000	22,145,400
Hospitals and Institutions	96	11,908,600	45	655,700	3,006,300
Industrial Buildings	958	119,535,800	705	23,873,700	104,839,900
Military and Naval buildings	32	9,133,500	8	261,400	911,300
Public Buildings	100	3,903,600	35	129,500	1,190,900
Public Works and Public Utilities	1,266	113,632,600	546	....	65,733,270
Religious and Memorial Buildings	187	9,772,800	51	404,200	2,912,500
Residential Buildings	3,891	120,522,610	2,703	16,605,000	65,459,960
Social and Recreational Buldings	338	128,681,900	120	1,514,500	9,250,600
Miscellaneous	7	172,000	...	....	....
Total	9,125	$642,849,010	5,579	....	$327,896,830

CONTRACTS AWARDED

(January 1 to April 1)

1920	$780,408,000	1916	$223,645,000	1912	$154,413,500
1919	275,555,000	1915	167,637,300	1911	173,904,313
1918	415,069,000	1914	149,032,000	1910	172,922,809
1917	318,785,000	1913	196,788,000		

(Building statistics compiled by the F. W. Dodge Company)

RECEIPTS AND SHIPMENTS OF IMPORTANT COMMODITIES AT CHICAGO

(000's omitted)

Products	Receipts March 1920	Receipts March 1919	Receipts February 1920	Receipts February 1919	Shipments March 1920	Shipments March 1919	Shipments February 1920	Shipments February 1919
Flour, barrels	785	648	1,007	390	686	440	734	199
Wheat, bushels	977	1,231	2,231	2,812	1,375	1,760	3,141	627
Corn, bushels	8,449	3,824	7,759	3,714	2,804	1,572	2,715	1,964
Oats, bushels	5,568	3,719	6,841	4,346	4,679	5,403	3,645	3,493
Cured Meats, pounds	6,461	21,533	6,599	18,840	106,701	159,756	101,022	129,757
Fresh Meats, pounds	71,844	90,027	82,284	79,322	203,092	158,551	199,337	225,589
Lard, pounds	9,188	17,311	13,670	15,282	46,469	60,206	49,376	46,576
Cheese, pounds	15,822	15,394	12,311	11,250	21,040	8,775	32,780	5,733
Butter, pounds	20,638	15,946	16,370	15,488	26,371	20,090	45,256	14,671
Eggs, cases	460	377	166	131	267	223	145	162
Potatoes, bushels	1,098	1,663	1,128	1,364	378	692	344	482
Hides, pounds	15,040	19,510	18,492	16,761	13,789	20,927	22,922	22,279
Lumber, thousand feet	264	124	235	98	122	46	81	45

COMPARATIVE LIVE STOCK STATISTICS

Receipts of live stock at Chicago for the four weeks ending April 10, compare as follows:

Year	Cattle	Calves	Hogs	Sheep
1920 (4 weeks)	148,245	54,741	383,802	141,140
1919 (4 weeks)	198,520	77,870	610,932	225,196
Decrease	50,275	23,129	227,130	84,056

Receipts of Live Stock at the Principal markets during March, and during the first three months of 1920 compared with the corresponding periods of the previous year, showing the following changes:

1920	Cattle	Calves	Sheep
March	2 per cent Increase	18 per cent Increase	None
Three months	10 per cent Decrease	17 per cent Increase	3 per cent Increase

Receipts of hogs during March, 1920, aggregated 1,909,122 head against 1,845,443 in March, 1919.

The average prices compared as follows per hundredweight:

CATTLE

	Choice	Common	Sheep	Lambs	Hogs
March, 1920	$15.40	$13.08	$13.32	$18.82	$14.95
March, 1919	20.20	16.05	14.10	19.00	19.10
Three months—1920	17.06	13.37	12.72	19.37	......
Three months—1919	19.98	15.97	11.92	17.55	......

Cash lard in March, 1920 ranged from $19.62½ to $21.37½ cwt. compared with $25.50 to $28.60 in March, 1919.

Cash ribs in March, 1920 ranged from $18.00 to $19.25 compared with $24.00 to $27.25 in March, 1919.